

RESOLUTION NO. 2011-06

A RESOLUTION OF THE LODI CITY COUNCIL
APPROVING REVISED CITY OF LODI ENERGY
RISK MANAGEMENT POLICIES AND APPOINTING
PHIL KATZAKIAN AS A MEMBER OF THE RISK
OVERSIGHT COMMITTEE

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NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby rescind Resolution No. 2006-19 and approve the revised City of Lodi Energy Risk Management Policies, as shown on Exhibit A attached hereto and made a part of this Resolution.

Dated: January 5, 2011

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I hereby certify that Resolution No. 2011-06 was passed and adopted by the Lodi City Council in a regular meeting held January 5, 2011, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Katzakian, Mounce, Nakanishi,
and Mayor Johnson

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None


RANDI JOHL
City Clerk

**CITY OF LODI
ENERGY RISK MANAGEMENT POLICIES**

January 5, 2011

The purpose of the Risk Management Program is to ensure that risks associated with Lodi's bulk power procurement program are properly identified, measured and controlled.

Scope:

The policies are to be applied to all aspects of Lodi's wholesale procurement and sales activities, long-term contracting associated with energy supplies, capital projects and associated financing related to generation, transmission, transportation or storage, and participation in Joint Powers Agencies (*JPA's*).

These policies do not address the following types of general business risk, which are treated separately in other official policies, ordinances, and regulations of the city: fire, accident and casualty, health, safety; workers compensation and other such typically insurable perils.

Risk Management Program Strategies:

1. Identify, measure and control risks that would have an adverse affect on retail rate stability.
2. Assign risk management responsibilities to appropriately qualified individuals and committees.

Risk Management Program Objectives:

1. Maintain a regularly updated inventory of Lodi's Bulk Power Procurement Program Risks.
2. Establish risk metrics and reporting mechanisms that provide both quantitative and qualitative assessments of potential impacts to rate stability.
3. Adopt business practices that encourage development of appropriate levels of operating reserve funds, contribute to retail rate stability and maintain appropriate security for established funds.

Risk Inventory:

Lodi Electric must inventory and address the following categories of risk as a component of the monitoring and reporting under the risk management program:

- Price Risk
- Credit Risk
- Operational Risk
- Contingent Liabilities

Price Risk – Price risk is the risk that wholesale prices may increase relative to open position needs and/or long term supply contracts may move “out of the money”, or become unprofitable or costly in comparison to prevailing price levels.

Credit Risk - Credit risk is the risk associated with entering into any type of transaction with another counterparty and is generally segmented into the following five categories:

1. Trading Counterparties and retail customers fail to pay for energy delivered;
2. Trading Counterparties and/or wholesale suppliers fail to deliver contracted for energy;
3. Trading Counterparties fail to take delivery of energy sold to them, necessitating a quick resale elsewhere, likely at a loss;
4. Counterparties, may refuse to extend credit or charge a premium for credit risks;
5. Counterparty transactions are too concentrated among a limited number of suppliers.

Operational Risk – Operational risk consists of the potential to effectively plan, execute or control business activities. Operational risk includes the potential for:

1. Inadequate organizational infrastructure, i.e., the lack of sufficient authority to make and execute decisions, inadequate supervision, absence of internal checks and balances, incomplete and untimely planning, incomplete and untimely reporting, failure to separate incompatible functions, etc.
2. Absence, shortage or loss of key personnel.
3. Lack or failure of facilities, equipment, systems and tools such as computers, software, communications links and data services.
4. Inability to finance capital projects or meet financial obligations incurred in the course of wholesale operations.
5. Exposure to litigation or sanctions as a result of violating laws and regulations, not meeting contractual obligations, failure to address legal issues and/or receive competent legal advice, not drafting contracts effectively, etc.
6. Errors or omissions in the conduct of business, including failure to execute transactions, violations of guidelines and directives, etc.

Contingent Liabilities – contingent liabilities consist of liabilities that Lodi could incur in the event of the failure of other parties to discharge their obligations. At present, these consist of three principle categories:

1. Guarantees and step up provisions in the enabling agreements for the Joint Powers Agencies (JPAs) of which the City is a member.
2. Project closure, decommissioning, environmental remediation and other

obligations which result from Lodi's own activities and from JPA projects and activities.

3. Provisions *for* take or pay, termination payments and/or margin calls in the City's long-term electric power supply agreements.

Prohibited and Authorized Transaction Types:

Prohibited Transaction Types:

Speculative buying and selling of energy products is prohibited. Speculation is defined as buying energy that is not needed for meeting forecasted load, selling energy that is not owned and/or selling energy that is not surplus without simultaneously replacing that energy at a lower cost. In no event shall transactions be entered into to speculate on market conditions.

Authorized Transaction Types:

1. Purchase energy to serve load above what is expected to be generated or purchased from existing resources.
2. Sell existing capacity or energy that is expected to be in excess of Lodi's load serving obligations.
3. Purchase gas that is expected to be needed to fuel owned plants.
4. Sell surplus gas if more economic energy is available for purchase.
5. Execute financial transactions to fix the price of variable commodity purchases or sales.
6. Purchase simple call options to limit price exposure on short gas or electricity positions.
7. Sell simple call options or tolling agreements on capacity that is expected to be in excess of Lodi's load serving obligations.
8. Purchase emissions allowances deemed necessary for efficient operations of owned generating facilities.
9. Purchase or sell firm transmission rights to manage congestion price risk.
10. A purchase/sale of energy at the California Oregon Border and a sale/purchase of energy at NP15 to take advantage of Lodi's transmission capacity.
11. A purchase of natural gas and a sale of energy to take advantage of excess gas fired peaking capacity.
12. A sale of natural gas and a purchase of electricity to take advantage of

market heat rates below NCPA gas fired generation.

Transactions that are not included in the Approved Transactions Type list are prohibited, unless explicitly approved by the City Council.

Energy Risk Management Roles, Responsibilities and Organization:

City Council

The City Council is responsible for making high-level, broad policy and strategy statements as contained in the Energy Risk Management Policy document. The City Council adopts the Energy Risk Management Policies as developed and recommended by the Risk Oversight Committee and delegates the City Manager to execute it. The City Council will review the Energy Risk Management Policy every year. Additionally, the City Council shall receive reports quarterly from the City Manager regarding risk management activities. These reports will be provided to the Council within six weeks after the end of each calendar quarter.

City Manager

The City Manager has overall responsibility for executing and ensuring compliance with policy adopted by the City Council. The City Manager reports quarterly to the City Council regarding energy risk management activities.

Risk Oversight Committee (ROC)

The ROC shall include as voting members, the Council member who serves as an NCPA Alternate Board member, the City Manager, Deputy City Manager, City Attorney and the Electric Utility Director; or in the case of their absence, their designees. The City Manager shall appoint the chair of the ROC. Additional non-voting members may be invited to participate on the ROC based on supporting expertise required by the ROC.

The ROC shall meet not less than once per month, or as otherwise called to order by the City Manager or City Council. The ROC shall keep minutes of all meetings and business transacted and shall appoint one of its members to perform this task. A quorum for the ROC to do business shall consist of all members or their designees. The ROC shall request attendance at its meetings by, and/or reports from, other persons as appropriate. The City Manager shall make regular reports to the City Council regarding business transacted by the ROC at such intervals and/or upon such occasions as the Council shall direct.

The ROC shall have the responsibility for ensuring that business is conducted in accordance with the Energy Risk Management Policies (ERMP). The ROC shall from time to time, adopt and bring current risk management business practices, defining in detail the internal controls, strategies and processes for managing risks associated with the adoption of those business practices. The ROC shall recommend to the City Council the categories of transactions permitted and set risk limits for those transactions. The ROC, with the approval of the City Manager, shall confirm the assignment of authority to execute wholesale trading transactions, and administer retail accounts, supply contracts, capital projects and JPA relationships.

Electric Department

The Electric Department shall participate on the ROC through the Electric Utility Director. The Electric Utility Director shall provide load forecast information and coordinate the receipt and dissemination of relevant market and transactional information undertaken on Lodi's behalf through NCPA.

Finance Department

The Finance Department shall participate on the ROC through the Deputy City Manager and provide accounting and cash flow information to the ROC.

Legal Department

The Legal Department shall participate on the ROC through the City Attorney and provide legal advice and representation and ensure that business is carried out in compliance with all applicable laws, regulations and executive court orders.

Reporting

Quarterly reports shall be provided to the City Council, which provide detail on the City's forward purchases, market exposure, credit exposure, transaction compliance and other relevant data.

Quarterly Reports shall include:

- Load and Resource balances as forecast and adopted in the current operating years budget.
- Load and Resource balances as adjusted due to operating conditions or purchases occurring during the quarter.
- An assessment of market exposure.
- An assessment of the quarterly change in power supply cost from budget.
- Credit Exposure by counterparty.
- A summary of any purchases made during the quarter.
- An assessment of any counterparty credit problems.

Transaction Limits and Controls

For transactions executed on behalf of Lodi through NCPA, trade authorization levels, counterparty credit limits and minimum counterparty rating criteria shall be described in NCPAs "Trade and Risk Management 1999 Interim Policies, Processes and Procedures (RMPP)", which are made a part of this document, and attached hereto.

Material changes to NCPAs RMPP shall be reported to the City Council as part of the quarterly reporting under Lodi's Energy Risk Management Policy.

For transactions executed on behalf of Lodi through NCPA, the City Manager and the Electric Utility Director shall have the authority to direct NCPA to enter into purchase agreements under authority granted by the City Council, by Resolution. The Resolution shall specify the limits of the authority delegated, including the maximum dollar amount

of the authority and the duration of the contracts and/or transactions that may be executed under the delegation of authority.

Because NCPA cannot enter into agreements on behalf of pooling members for longer than one year, power supply contracts that have terms longer than one year, or that begin delivery more than one year into the future must be executed directly by Lodi.

For transactions executed directly by Lodi, the City Manager and the Electric Utility Director shall have the authority to enter into purchase agreements under authority granted by the City Council, by Resolution.

The Resolution shall specify the limits of the authority delegated, including the maximum dollar amount of the authority and the duration of the contracts and/or transactions that may be executed under the delegation of authority.

Any resolution delegating authority to the City Manager to contract for electricity shall specify generally at least the following terms and conditions and the description of energy and energy services to be procured, including, but not limited to, on-peak and off-peak energy and ancillary services; term, specifying a not-to-exceed period of time; period of delivery denoted in years or months; and point of delivery on the locus on the interstate transmission system on which the delivery is made.

Any delegation of authority to contract for gas shall specify generally at least the following terms and conditions; quantity and the description of gas services to be procured, including but not limited to scheduled gas and gas transportation services, specifying a not-to-exceed period of time; period of delivery denoted in years or months or years and months; and point of delivery of the locus on the interstate transmission system at which the transfer of title is made.

For contracts executed directly by the City, the City shall use standardized form contracts for the procurement of gas and electricity, as practicable, including, but not limited to form contracts created and copyrighted by the Edison Electric Institute, the Western States Power Pool, and the North American Energy Standards Board. Unless waived by resolution of the City Council, a counterparty shall obtain and maintain during the terms of the contract, the minimum credit rating established as of the date of award of the contract of not less than a BBB-credit rating established by Standard and Poor's and a Baa3 credit rating established by Moody's investors Services.

All procurement of gas and electricity by contract shall conform to the requirements of the Energy Risk Management Policies.

Compliance

Compliance exceptions are actions, which violate the authority limits, requirements or directives set forth in the Energy Risk Management Policy. All exceptions shall be reported immediately to the City Manager and quarterly to the City Council in the quarterly exception report.

Willful violations of the Energy Risk Management Policy will be subject to review and may be cause for discipline or dismissal.